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SUBJECT: RUSSIA'S ROLE IN TAJIK ECONOMY -- BIG FISH IN SMALL, MURKY POND

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¶11. (SBU) Summary: Russia is Tajikistan's largest trade and investment partner. Russian foreign direct investment in Tajikistan amounted to \$325 million in 2008, although it has fallen off because of the financial crisis. Russian firms, many of them state-owned, are involved in the energy, banking, communications, hospitality, and other sectors in Tajikistan. Russia's economic influence is felt most strongly through labor migration: as many as one million Tajiks work as migrant laborers in Russia, sending back billions of dollars annually. Although Russians are a big fish, Tajikistan remains a small pond. Russian firms are leery of investing in Tajikistan's inhospitable business environment. End summary.

Trade and Investment

¶12. (U) Russia continues to be the dominant external economic partner of Tajikistan, although its position is slipping somewhat. Since 2005, Russia has invested \$971 million in Tajikistan. In 2008 it accounted for 75 percent of total foreign direct investment (FDI), or \$325 million -- 28 percent more than in 2007. According to the Government of Tajikistan, in the first half of 2009 Russia invested \$39 million -- more than any other country. Other major investor countries were Kazakhstan (\$25.8 million), the Netherlands (\$8.9 million), China (\$5.7 million), the United Kingdom (\$5.5 million), Iran (\$1.0 million) and other countries (\$32.3 million). Russia's low investment compared to previous years is due to the global financial crisis.

¶13. (U) Trade also took a sharp hit from the crisis. In July, Russian Ambassador Yuri Popov noted that trade between Russia and Tajikistan for January-June 2009 amounted to \$400.5 million, 28 percent less than the same period in 2008. Imports from Russia totaled \$360.6 million, almost 28 percent lower than last year's figure, while exports from Tajikistan to Russia amounted to \$39.9 million, 19 percent lower than the first six months of 2008. Russia nevertheless remained Tajikistan's largest trading partner, with 24.7 percent of Tajikistan's overall trade.

Hydropower: Sangtuda-1

¶4. (U) Russia has made major investments in energy, construction, mining, communication, transportation, and other sectors. Among the largest projects is the Sangtuda-1 hydropower plant, officially opened by Presidents Medvedev and Rahmon at the end of July, which is worth around \$600 million. Although it is frequently reported that the Tajiks own 25 percent of the project, according to local newspapers their ownership was earlier reduced to 16.45 percent. The project has had its problems. For the first quarter of 2009 the Tajik electrical grid operator Barqi Tojik did not remit money to its Russian partner RAO UES. After a riot by construction workers in March 2009, Russian Vice Prime Minister Igor Sechin stepped in to help resolve the problem. Asadullo Ghulomov, Tajikistan's Vice Prime Minister, later stated that Barqi Tojik paid \$10 million of its debt to RAO UES in April 2009.

Other Energy Investment

¶5. (U) On December 13, 2006, the Tajik affiliate of Russian gas giant Gazprom Zarubezhneftegas received four licenses for prospecting work in Tajikistan, including Sargazon in Dangara district (38,500 hectares), Rengan in Rudaki district (29,808 ha), Sarikamish in Shahrinav district (21,833 ha), and Western

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Shohambari in Hissor district (5,065 ha). Estimated reserves in the four sites total some 70-80 billion cubic meters of gas. If successfully exploited, this domestic production will help relieve Tajikistan's gas dependency on its neighbors, particularly Uzbekistan, with which it has a strained relationship. Gazprom Zarubezhneftegas reportedly plans to invest up to \$1 billion within the next three years; its total investment in 2009 totals only some \$30 million, however.

¶6. (SBU) Gazprom's main competition is Canadian-registered Tethys Petroleum, which has signed production-sharing agreements with the Tajik government to develop its own four sites in Tajikistan. Tethys recently began drilling on the outskirts of Dushanbe and hopes to begin producing gas there by the beginning of next year. Tethys representatives have spoken favorably about the activity of their Russian competitors, saying that the increased exploration and drilling activity will lower costs for inputs to both firms. Privately, a Tethys employee told Embassy Econoff that the firm has had some difficulty bringing in chemicals due to Russian export restrictions. His hope is that with Gazprom bringing in similar products, it will be easier for Tethys to do the same -- even buying directly from Gazprom's domestic suppliers.

¶7. (U) Another Russian project involves investing \$43.3 million to expand the Gazpromneft Tajikistan's network of fuel stations, which already accounts for 60% of gasoline supplies in Tajikistan. In his last visit on July 30, 2009, Russian President Medvedev signed an agreement with President Rahmon to open a joint venture to produce energy-saving light bulbs. The Tajik President recently signed a law outlawing the use of incandescent bulbs.

¶8. (U) Russian companies reportedly have expressed interest in investing in several prospective hydropower plants. The largest of these is Roghun, which Russian firm Rusal came close to investing in in August 2007 before the deal fell through. Despite the bad blood following that incident, Russian firms are still considering stakes in Roghun as well as three additional medium capacity stations -- Urtafin on the Khingob River, Obburdon on the Zeravshan River, and Yavroz on the Kofarnihon River.

Other Sectors

¶9. (U) At the end of May an affiliate of the state-owned Russian bank Rosselkhozbank was established in Dushanbe that may pave the way for further financial relations between the two countries. Rosselkhozbank is oriented principally toward the agriculture sector; its Tajik branch reportedly will be working to build and maintain a network of Tajik and Russian companies. Russian mobile telecommunication firms Beeline and Megafon have been in the Tajik communications market since 2005, providing services such as GSM-900/1800 and 3G (UMTS). Beeline currently has 722,000 customers, making it the top communications company in Tajikistan's diverse market.

Five-Star Hotels in Tajikistan: White Elephants?

¶10. (SBU) Russia has also invested in the construction of Tajikistan's only 5-star hotel, the Hyatt Regency, built by the Turkish company ENKA and funded by the investment company Sozidanie (meaning "creation") through the Rusal-owned "Russkie Oteli" company. (Note: The local manager of a firm considering building its own five-star hotel called the Hyatt project, estimated at \$150 million, a "a money laundering project" for

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the Russian government that should in fact have cost no more than \$40 million. End note.) Rusal also has invested in the construction of a large business center in downtown Dushanbe that still lies untenanted.

Migration Card Game

¶11. (U) Although Russia is Tajikistan's largest investor, its economic influence in Tajikistan is felt most strongly through another means altogether: labor migration. As many as one million of Tajikistan's population of 7 million work as migrant laborers in Russia, sending back over \$2.5 billion in remittances last year. The world financial crisis has hit the Russian construction sector, where many Tajiks work, especially hard, and remittances have fallen off by 35% this year. Many Tajiks nevertheless remain in Russia in the hope of finding new work. Although Tajiks working in Russia are officially required to obtain work permits, the fact that travel between the two countries is visa-free makes it difficult to enforce this requirement. Russian politicians have floated the idea of instituting a visa requirement for Tajiks traveling to Russia, but nothing has yet come of this. Local migration expert Saodat

Olimiva points out that Tajiks working in Russia spend as much as two-thirds of their income there, indicating that the guestworker arrangement is in Russia's interest as well.

Comment: The Big Fish Would Rather Be Somewhere Else

¶12. (SBU) Russian investment in Tajikistan remains largely state-led, with mobile telephone operations the major exception. The previous Russian Ambassador commented to the press here that no Russian company would invest in Tajikistan unless pressured to do so by the Government of Russia. He cited corruption as the main deterrent. This practice reinforces the Tajiks' tendency to view Russia-U.S. activity here as a Great Game, a zero-sum competition for power over Central Asia. They routinely fail to understand that we can't -- unlike Russia -- command U.S. companies to do business here. That said, recent initiatives to improve the business climate are a small step in the right direction, provided they continue to receive government support. End comment.

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